# Press Release

# Vallourec reports Q2 and Half Year 2010 results

*Boulogne-Billancourt, 28 July 2010* - Vallourec, world leader in the production of seamless steel tubes, today announced its results for the second quarter and the first half of 2010. The consolidated financial statements were presented today by Vallourec's Management Board to its Supervisory Board.

## Key Figures

### Q2 2010: Strong rebound vs. Q1 2010

- **Sales volume up 41% to 484 thousand tonnes**
- **Sales up 28% to € 1,122 million**
- **EBITDA up 78% to € 264.4 million**
- **Net income, Group share up 107% to € 125.9 million**

### H1 2010: Performance slightly better than anticipated

- **Sales down 3% to € 1,999 million vs. H2 09**
- **EBITDA of € 412.8 million representing 20.6% of sales (19.5% in H2 09)**
- **Net income of € 186.7 million (-10% vs. H2 09)**

## Highlights

- **Acquisition of Serimax completed on 8 June 2010 to strengthen Vallourec's offer of premium solutions in offshore line pipes**
- **Investment in China to serve the local power generation market**
- **VSB in Brazil on track for first tube production in Q4 2010**
- **Construction under way of a new pipe mill in the US to meet the long term development of unconventional gas**
- **Cost reduction focus maintained and results ahead of target**

***Information***
***Half year financial statements at 30 June 2009 and 30 June 2010 are subject to limited audit review.***
***Full year financial statement at 31 December 2009 have been audited. Quarterly statements are unaudited and not subject to any review.***

## Commenting on these results, Philippe Crouzet, Chairman of the Management Board, stated:

*"We have reacted quickly to meet the strong rebound in activity in all our markets during the second quarter. Once again, our teams have demonstrated a high level of flexibility and mobilization to satisfy our customers' needs and adapt to constantly changing markets.*

*This has allowed us to benefit from an accelerated level of bookings during the second quarter and, consequently, we expect most of our plants to operate at high utilisation rates during the second half of the year. We are significantly ahead of our 3-year cost savings programme and remain focused on cost efficiencies.*

*Over the past few months, we have seized several opportunities to increase our presence in high growth markets, to get closer to our customers and develop innovative premium solutions. In addition to the ongoing investments in Brazil, France and the United States, our developments in the Middle East, the recent acquisition of Serimax and the new investment announced today in China are strengthening our positions to benefit from the positive long term prospects of the energy markets."*

## MARKET ENVIRONMENT

### Energy markets

***Oil & Gas***

Global oil demand is forecast to grow by 1.5 mb/d in 2010, driven by China, the Middle East, Latin America and Asia. International E&P expenditure is expected to grow by 12%[1] to $447 billion, slightly ahead of the previous forecast, driven notably by the United States and by national oil companies in the rest of the world.

In the United States, natural gas prices averaged $4.3/mbbtu in the second quarter compared to $5.1/mbbtu in the first quarter. Despite the lower gas prices, the US rig count continued to rise reaching 1,557 at the end of June, up 6% since the end of March, up 31% since the start of the year and up 64% compared to prior year. Conventional gas drilling has slowed down, however, this has been more than offset by an increase in non-conventional gas drilling (horizontal rigs +49% since the start of the year) and drilling for oil (oil rigs +40% since the start of the year). This translated into a strong demand for OCTG, notably for premium pipes, with distributor inventories now back to normal levels.

Following the introduction of a moratorium by the US administration, the number of offshore drilling rigs in the Gulf of Mexico fell significantly during the second quarter to just a dozen platforms operating today, compared to 53 in early April. Offshore activity in this area may be partially transferred to other regions in the coming quarters.

In the rest of the world, the international rig count reached 1,099 rigs at the end of June, up 2% since the end of March, up 7% since the start of the year, and just marginally below the record level reached in September 2008. Within that figure, the offshore rig count totalled 312, up 11% compared to year end 2009. The increased tendering activity experienced during the first quarter was prolonged at a similar level during the second quarter, and some significant tenders

[1] Barclays Capital E&P Spending Survey – June 2010 – Estimate of $439 billion in December 2009

are in progress for the OCTG and offshore line pipe markets. Active regions include the North Sea, the Middle East and North Africa, Brazil and South East Asia.

***Power generation***

The market for power generation has stabilized at a low level with very few new projects. In the US and Europe, demand during the quarter was mostly driven by distribution orders for the maintenance market, as new investments were limited. In India and China, new power generation projects are underway in a very competitive environment. Demand of tubes for nuclear power plants around the world continues to be strong.

***Petrochemicals***

The market for petrochemicals has been improving throughout the first and second quarters, as destocking reached an end and distributors in the US, the Middle East and South East Asia replenish inventories in line with a pick up in demand. Engineering companies have started to place orders for major new projects in the Middle East.

## Non-energy markets

Worldwide industrial production is forecast to grow by 8% in 2010, driven by China, India and Brazil. During the first half of the year, European based distributors have been increasing orders in anticipation of higher demand, amplifying the effect of the recovery. Stronger global demand and depreciation of the Euro should support European exports manufacturing throughout 2010 even as the rate of growth stabilizes in the second half of the year.

## Raw materials

In the first half 2010, the prices of both scrap and iron ore increased strongly. The trends remain uncertain as we enter into the second half of the year.

## Currency

Both the US Dollar and the Brazilian Real have appreciated against the Euro during the first half of the year, although the Euro has strengthened since early June.

## SALES BY MARKET

Overall, the second quarter sales showed a strong rebound in all markets over the first quarter which appears to be the trough of the cycle. But the level of activity still remains significantly lower than a year ago, especially in the Energy markets.

(Comparison Q2 2010 with Q1 2010; H1 2010 with H1 2009)

| *in € million* | **Q2 2010** | **Q1 2010** | ***Change*** | **H1 2010** | **H1 2009** | ***Change*** |
|---|---|---|---|---|---|---|
| Oil & Gas | 553 | 447 | *+24%* | 1,000 | 1,214 | *-18%* |
| Power generation | 222 | 191 | *+16%* | 413 | 583 | *-29%* |
| Petrochemicals | 89 | 70 | *+27%* | 159 | 229 | *-31%* |
| **Total Energy** | **864** | **708** | ***+22%*** | **1,572** | **2,026** | ***-22%*** |
| % of total sales | 77% | 81% | | 79% | 85% | |
| | | | | | | |
| Mechanical | 105 | 76 | *+38%* | 181 | 202 | *-10%* |
| Automotive | 79 | 65 | *+22%* | 144 | 82 | *+76%* |
| Construction & Other | 74 | 28 | *+164%* | 102 | 85 | *+20%* |
| **Total non-Energy** | **258** | **169** | ***+53%*** | **427** | **369** | ***+16%*** |
| % of total sales | 23% | 19% | | 21% | 15% | |
| | | | | | | |
| **Total** | **1,122** | **877** | ***+28%*** | **1,999** | **2,395** | ***-17%*** |

### Energy markets

***Oil & Gas***

In **Oil & Gas**, sales in Q2 2010 were up 24% sequentially to € 553 million, bringing H1 2010 sales to € 1,000 million, 18% below H1 2009 (€ 1,214 million), which benefited from the high prices and volumes of orders booked in 2008.

In the US, sales of premium pipe and connections benefited from the strong rise of active rigs, with a marked shift from conventional to unconventional shale gas drilling and a significant increase in oil drilling. Robust demand for OCTG and distributor inventories returning to normalised levels have driven higher capacity utilisation for the mills. Vallourec's mill in Youngstown, Ohio is expected to operate at full capacity during H2 2010 while the slowdown of activity in the Gulf of Mexico should be of limited impact. In a context of stronger demand and higher raw material costs, price increases were applied as of 1 April and 1 July.

In the rest of the world, sales increased sequentially, reflecting the pick-up in tenders by national oil companies (Brazil, North Africa and Middle East) at the end of 2009. Bookings continued to increase steadily throughout the second quarter, with some significant orders placed for the Middle East and Asia.

Sales in H2 2010 will benefit from the integration of Serimax and from numerous subsea line-pipe projects.

***Power generation***

In **Power generation**, Q2 2010 benefited from increased sales to distributors to reach € 222 million, up 16% sequentially. For H1 2010 sales amounted to € 413 million, significantly below prior year (-29%) due to the sharp decline in bookings taken in 2009. Bookings during Q2 2010 were essentially driven by distributor demand of standard carbon steel tubes for the maintenance market, as the low level of new super critical and ultra super critical projects has reduced demand for high value added alloy tubes. Furthermore, the level of prices in emerging markets is impacted by intense local competition. These combined effects will negatively impact the price/mix going forward.

***Petrochemicals***

In **Petrochemicals**, sales increased strongly in Q2 2010, up 27% sequentially to € 89 million primarily driven by sales to distributors. For H1 2010, sales remain below prior year at € 159 million (€ 229 million in H1 2009). During Q2 2010, orders were booked for a number of major new projects in North Africa and the Middle East.

## Non-energy markets

Q2 2010 marked a strong rebound in **Non-energy markets (Mechanical engineering, Automotive** and **Construction & Other)**. Sales increased 53% quarter-on-quarter to reach € 258 million (€ 169 million in Q1 2010), reflecting the improved economic fundamentals in Brazil and European export markets. In H1 2010, sales amounted to € 427 million, up 16% year-on-year. During this period, new orders from distributors amplified the effect of higher final demand.

# RESULTS

## Summary consolidated income statement

(Comparison Q2 2010 with Q1 2010; H1 2010 with H1 2009)

| *In € million* | **Q2 2010** | **Q1 2010** | ***Change*** | **H1 2010** | **H1 2009** | ***Change*** |
|---|---|---|---|---|---|---|
| **Sales Volume (k tonnes)** | **484** | 344 | *+41%* | **828** | 859 | *-4%* |
| **Sales** | **1,121.8** | 877.4 | *+28%* | **1,999.2** | 2,395.0 | *-17%* |
| Cost of sales[1] | -720.4 | -613.6 | *+17%* | -1,334.0 | -1,566.9 | *-15%* |
| SG&A costs[1] | -127.0 | -108.4 | *+17%* | -235.4 | -234.8 | *+0.2%* |
| Other income (expense), net | -10.0 | -7.0 | | -17.0 | -15.5 | |
| **EBITDA** | **264.4** | 148.4 | *+78%* | **412.8** | 577.8 | *-29%* |
| As % of sales | **23.6%** | 16.9% | | **20.6%** | 24.1% | |
| **Net income, Group share** | **125.9** | 60.8 | *+107%* | **186.7** | 311.1 | *-40%* |

Sales volume of rolled tubes in Q2 2010 totalled 484 thousand metric tonnes, up 41% versus 344 thousand tonnes in Q1 2010. For H1 2010, sales volume amounted to 828 thousand tonnes, just 4% below the prior year period (859 thousand tonnes).

Consolidated sales for Q2 2010 reached € 1,122 million, up 28% compared to the low point of € 877 million reached in Q1 2010. The increase in sales consisted of a volume effect (+40.8%), a positive currency translation effect (+3.1%) partly offset by a negative price/mix (-12.0%) reflecting the strong rebound in non-energy sales, the prices of which are below the average of the Group.

Consolidated sales for H1 2010 totalled € 1,999 million, 17% below prior year (€ 2,395 million in H1 2009) due to a negative price/mix effect (-19.7%). Year-on-year, volume was down -3.6%;

[1] Before depreciation and amortization

the consolidation scope[1] increased following the integration of PTCT in Indonesia and VAM Drilling (DPAL and Protools) in the Middle East (+3.8%) and currency translation contributed positively (+3.8%) due to the appreciation of the US dollar and Brazilian real.

EBITDA for Q2 2010 amounted to € 264.4 million, up 78% compared to Q1 2010, representing 23.6% of sales, versus 16.9% in Q1 2010. Better absorption of fixed costs allowed by the strong increase in volumes, and continued efforts on cost savings, lead to a reduction in the total cost of sales from 69.9% to 64.2% of sales. Sales general and administrative costs (SG&A) decreased from 12.4% to 11.3% of sales.

With the pick-up in activity, the number of hours worked increased and plant utilisation rates continued to progress, notably in the US and Brazil. The Group remains focused on generating cost efficiencies across all its business activities, through the successful execution of "Cap Ten" cost savings programme and ongoing streamlining measures in Europe.

EBITDA for H1 2010 amounted to € 412.8 million, 29% below prior year compared to prior year, representing 20.6% of sales, versus 24.1% in H1 2009. Cost of sales and SG&A represented 66.7% and 11.8% of sales respectively in H1 2010, compared to 65.4% and 9.8% for the same period of the previous year, reflecting lower volumes sold and the resulting lower absorption of fixed costs.

Depreciation of industrial assets amounted to € 43.4 million for Q2 2010 and € 83.9 million for H1 2010, up 18% versus H1 2009, following the integration of PTCT in Indonesia and VAM Drilling in the Middle East.

The effective tax rate was 35.2% for Q2 2010 due primarily to non-recurring factors. It amounted to 33.8% in H1 2010 versus 32.3% in H1 2009.

Net income, Group share amounted to € 125.9 million, for the quarter, up 107% sequentially. For the first half of 2010, net income, Group share amounted to € 186.7 million, down 40% versus prior year.

## Cash flow

Gross cash flow from operations increased significantly to € 239.3 million in Q2 2010 versus €84.3 million in Q1 2010, reflecting the strong growth in results. Whilst working capital requirement was stable during Q1 2010, the strong increase in activity during Q2 2010 generated an increase of € 184.4 million. As a result, the Group generated operating cash flow of € 54.9 million in Q2 2010 and € 137.7 million in H1 2010.

Gross capital expenditure amounted to € 303.4 million during H1 2010 of which expenditure relating to strategic projects (VSB plant in Brazil, the new tube mill in the US, and new capacities in France to produce tubes for nuclear power plants) totalled € 182 million.

Financial investments of € 161.1 million during H1 2010 include the acquisition of Serimax, a leading provider of welding solutions for offshore line pipes in June 2010.

Dividends paid by the Group during H1 2010 amounted to € 82.9 million, of which € 71.9 million, was paid by Vallourec to its shareholders in respect of the financial year 2009.

[1] PTCT Indonesia – majority control acquired from 1 July 2009; DPAL FZCO Dubai – acquired on 1 October 2009; Protools Abu Dhabi – acquired on 9 February 2010.

The total cash outflow during H1 2010 amounted to € 421.2 million, resulting in a net debt of € 14.5 million at 30 June 2010 versus a positive cash balance of €406.7 at the end of 2009. Shareholders' equity amounted to € 4,272.0 million.

At 30 June 2010, the Group's cash exceeded its overdrafts and short term borrowings by € 652 million. Of the € 897 million of bank loans and other borrowings, 42% has a maturity in excess of 2 years. Vallourec maintains its undrawn confirmed credit lines of around €1.2 billion with maturities in 2012 and 2013.

## INVESTMENT IN CHINA

Vallourec has decided to expand its finishing plant in China, V & M Changzhou, to produce 60,000 tonnes of seamless pipe per year using a new proprietary technology. The expansion of V & M Changzhou will enable the local production of large diameter premium tubes specifically designed to meet the needs of the new generation of supercritical and ultra-supercritical power plants. The capital expenditure for this project amounts to Euro 160 million and operations are expected to begin by mid 2012.

## OUTLOOK

After the rebound in Q2, the positive sales trend is expected to continue at a more modest pace during H2 2010.

The recent increase in the raw material prices will impact production costs in the coming quarters, while selling prices are being progressively increased. However the negative price/mix effect in the power generation business will impact margins. Moreover, Brazil will incur additional operational expenses as the new mill VSB starts up production in Q4.

As a result Vallourec expects an EBITDA margin for H2 2010 slightly below H1 2010.

## APPENDICES

Documents accompanying this release:

- Data on sales volume (metric tonnes)
- Summary consolidated income statement
- Summary consolidated balance sheet
- Summary cash flow statement

## PRESENTATION OF Q2 AND H1 2010 RESULTS

**Wednesday 28 July**

- Analyst conference call at 6:30 pm (CET) to be held in English
  To participate in the call, please dial:
  0808 238 0665 (UK), 0805 110 480 (FR), 1866 261 3627 (USA), +44 1452 568 328 (other countries)
  Conference code: 87938450

**Thursday 29 July**

- Press conference at 9am
- Analyst meeting in Paris at 10:30 am (CET)
  Maison des Centraliens
  8 Rue Jean Goujon - Metro Franklin Roosevelt
  The slides and the audiocast of the presentation will be available from 9 am in English and in French on: www.vallourec.com

## CALENDAR 2010

- 24 September: Vallourec Investor Day in New York
- 9 November: Release of Q3 2010 results

## ABOUT VALLOUREC

Vallourec is a world leader in premium tubular solutions primarily serving the energy markets, as well as other industrial applications.

With 18,600 employees, integrated manufacturing facilities, advanced R&D, and presence in more than 20 countries, Vallourec offers its customers innovative global solutions to meet the growing energy challenges of the 21st century.

Listed on NYSE Euronext in Paris (ISIN code: FR0000120354) and eligible for the Deferred Settlement System, Vallourec is included in the following indices: MSCI World Index, Euronext 100 and CAC 40.

**www.vallourec.com**

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## FOR FURTHER INFORMATION, PLEASE CONTACT


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# Sales volume

Sales volume corresponds to the volume in metric tonnes of hot-rolled tubes produced and delivered by Vallourec's rolling mills.

| *In thousands of tonnes* | **2010** | **2009** | **∆ 10 / 09** |
|---|---|---|---|
| **Q1** | **344.0** | 488.3 | **- 29.6%** |
| **Q2** | **484.2** | 370.5 | **+30.7%** |
| **Q3** | | 314.6 | |
| **Q4** | | 329.6 | |
| **Total** | | 1,503.0 | |

# Summary consolidated income statement

| **VALLOUREC (in € million)** | **Q2 2010** | **Q1 2010** | **Q2 2009** | **Change Q2'10 / Q1'10** | **Change Q2'10 / Q2'09** |
|---|---|---|---|---|---|
| **Sales** | **1,121.8** | 877.4 | 1,081.9 | *+27.9%* | *+3.7%* |
| **Cost of sales** | **-720.4** | -613.6 | -714.5 | *+17.4%* | *+0.8%* |
| **Selling, general and administrative costs**[1] | **-127.0** | -108.4 | -114.7 | *+17.2%* | *+10.7%* |
| **Other income (expense), net**[1] | **-10.0** | -7.0 | -14.2 | *+42.9%* | *-29.6%* |
| **EBITDA** | **264.4** | 148.4 | 238.5 | *+78.2%* | *+10.9%* |
| ***EBITDA as % of sales*** | ***23.6%*** | *16.9%* | *22.0%* | | |
| Depreciation of industrial assets | **-43.4** | -40.5 | 36.0 | *+7.2%* | *+20.6%* |
| Other (amortization, impairment & restructuring) | **-12.6** | -9.2 | -17.6 | | |
| **OPERATING INCOME** | **208.4** | 98.7 | 184.9 | *+111.1%* | *+12.7%* |
| **FINANCIAL INCOME** | **-3.7** | -5.8 | 0.7 | | |
| **INCOME BEFORE TAX** | **204.7** | 92.9 | 185.6 | *+120.3%* | *+10.3%* |
| Income tax | **-72.0** | -28.7 | -59.3 | | |
| Net income of equity affiliates | **3.4** | 2.7 | 0.6 | | |
| **CONSOLIDATED NET INCOME** | **136.1** | 66.9 | 126.9 | *+103.4%* | *+7.2%* |
| **NET INCOME, GROUP SHARE** | **125.9** | 60.8 | 123.9 | *+107.1%* | *+1.6%* |

[1] Before depreciation and amortization

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# Summary consolidated income statement

**(in € million)**

| **VALLOUREC (in € million)** | **H1 2010** | ***as a % of sales*** | **H1 2009** | ***as a % of sales*** | **2010 / 2009** |
|---|---|---|---|---|---|
| **Sales** | **1,999.2** | | 2,395.0 | | -16.5% |
| **Cost of sales** | **-1,334.0** | *66.7%* | -1,566.9 | *65.4%* | -14.9% |
| **Selling, general and administrative costs[1]** | **-235.4** | *11.8%* | -234.8 | *9.8%* | +0.3% |
| **Other income (expense), net[1]** | **-17.0** | *0.9%* | -15.5 | *0.6%* | +9.7% |
| **EBITDA** | **412.8** | *20.6%* | 577.8 | *24.1%* | -28.6% |
| Depreciation of industrial assets | **-83.9** | *4.2%* | -71.3 | *3.0%* | +17.7% |
| Other (amortization, impairment & restructuring) | **-21.8** | | -33.4 | | |
| **OPERATING INCOME** | **307.1** | *15.4%* | 473.1 | *19.8%* | -35.1% |
| **FINANCIAL INCOME** | **-9.5** | | 7.4 | | |
| **INCOME BEFORE TAX** | **297.6** | *14.9%* | 480.5 | *20.1%* | -38.1% |
| Income tax | **-100.7** | | -155.0 | | |
| Net income of equity affiliates | **6.1** | | 4.3 | | |
| **CONSOLIDATED NET INCOME** | **203.0** | *10.2%* | 329.8 | *13.8%* | -38.4% |
| **NET INCOME, GROUP SHARE** | **186.7** | | 311.1 | | -40.0% |

[1] Before depreciation and amortization

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# Summary consolidated balance sheet

**(in € million)**

**VALLOUREC**

| | 30/06/10 | 31/12/09 | | 30/06/10 | 31/12/09 |
|---|---|---|---|---|---|
| Intangible assets, net | 301.8 | 250.3 | Shareholders' equity (1) | 4,272.0 | 3,860.5 |
| Goodwill | 543.3 | 397.8 | Minority interests | 285.4 | 241.5 |
| Property, plant and equipment, net | 2,842.6 | 2,367.0 | Total equity | 4,557.4 | 4,102.0 |
| Investments in equity affiliates | 65.4 | 56.7 | | | |
| Other non-current assets | 205.6 | 188.2 | | | |
| Deferred tax assets | 46.6 | 36.4 | Bank loans and other borrowings | 666.0 | 634.9 |
| Total non-current assets | 4,005.3 | 3,296.4 | Employee benefits | 139.3 | 132.8 |
| | | | Deferred tax liabilities | 129.1 | 125.7 |
| | | | Other long-term liabilities | 24.6 | 7.0 |
| | | | Total non-current liabilities | 959.0 | 900.4 |
| Inventories and work-in-progress | 1,135.6 | 927.2 | Provisions | 150.3 | 140.5 |
| Trade and other receivables | 805.1 | 612.0 | Overdrafts and other short-term bank borrowings | 231.1 | 116.2 |
| Derivatives - assets | 38.6 | 23.7 | Trade payables | 552.7 | 482.8 |
| Other current assets | 162.1 | 152.9 | Derivatives-liabilities | 145.5 | 29.5 |
| Cash and cash equivalents | 882.6 | 1,157.8 | Other current liabilities | 433.3 | 398.6 |
| Total current assets | 3,024.0 | 2,873.6 | Total current liabilities | 1,512.9 | 1,167.6 |
| | | | | | |
| TOTAL ASSETS | 7,029.3 | 6,170.0 | TOTAL LIABILITIES | 7,029.3 | 6,170.0 |

| | | | | | |
|---|---|---|---|---|---|
| Net debt | 14.5 | -406.7 | (1) Net income, Group share | 186.7 | 517.7 |

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# Summary consolidated cash flow statement

**(in € million)**

| | Q2'10 | Q1'10 | Q2'09 | H1'10 | H1'09 |
|---|---|---|---|---|---|
| **Gross cash flow from operations** | **239.3** | 84.3 | 175.6 | **323.6** | 472.3 |
| Change in gross WCR [+ decrease, - increase] | **-184.4** | -1.5 | +237.7 | **-185.9** | 261.1 |
| **Operating cash flows** | **54.9** | 82.8 | 413.3 | **137.7** | 733.4 |
| Gross capital expenditure | **-166.7** | -136.7 | -129.7 | **-303.4** | -256.5 |
| Financial Investments | **-144.9** | -16.2 | 0.0 | **-161.1** | -8.5 |
| Dividends paid | **-79.3** | -3.6 | -6.5 | **-82.9** | -29.1 |
| Asset disposals & other elements | **-33.1** | 21.6 | 15.5 | **-11.5** | 6.0 |
| **Change in net cash** | **-369.1** | -52.1 | +292.6 | **-421.2** | 445.3 |

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